

THE COST OF CREDIT

Calculating Interest



SIMPLE INTEREST

Interest = Principal x Rate x Time

$$I = P \times R \times T$$

3 REMINDERS

Interest Rate must be recorded as a fraction or a decimal.



$$12\% = .12$$

or $12/100$

Interest is charged for each dollar or part of a dollar borrowed.

Interest Rates are based upon a unit of **Time**. **Typically a year, but can be computed by month or daily.**



$$2 \text{ years} = 2$$
$$4 \text{ months} = 4/12$$
$$60 \text{ days} = 60/360$$

$$I = P \times R \times T$$

$$I = \$100 \times 12\% \times 1$$

$$I = \$100 \times .12 \times 1$$

$$I = \$12$$

$$\mathbf{I = P \times R \times T}$$

$$I = \$100 \times 12\% \times 1 \text{ month}$$

$$I = \$100 \times .12 \times (1 / 12)$$

$$I = \$1$$

$$I = P \times R \times T$$

$$I = \$100 \times 12\% \times 60 \text{ Days}$$

$$I = \$100 \times .12 \times (60 / 360)$$

$$I = \$2$$

INSTALLMENT LOAN PAYMENT SCHEDULES

Installment Loans

Loans that are repaid with installment payments

Decreasing Loan Payment

Installment Loan in which interest is calculated on the amount unpaid each month.

Level Loan Payment

Installment Loan in which interest is calculated on the amount unpaid each month and payment is applied to both interest and principle.

CREDIT INSURANCE

- Offered to Credit users to protect them in case of a situation that they are unable to pay their bills.
- **Optional** - Amount based on unpaid balance
- Protection begins typically in a life event:
 - Loss of Job
 - Birth
 - Death
 - Injury